Analysis of the Performance of the Private Economy and Domestic Consumption in Mainland China

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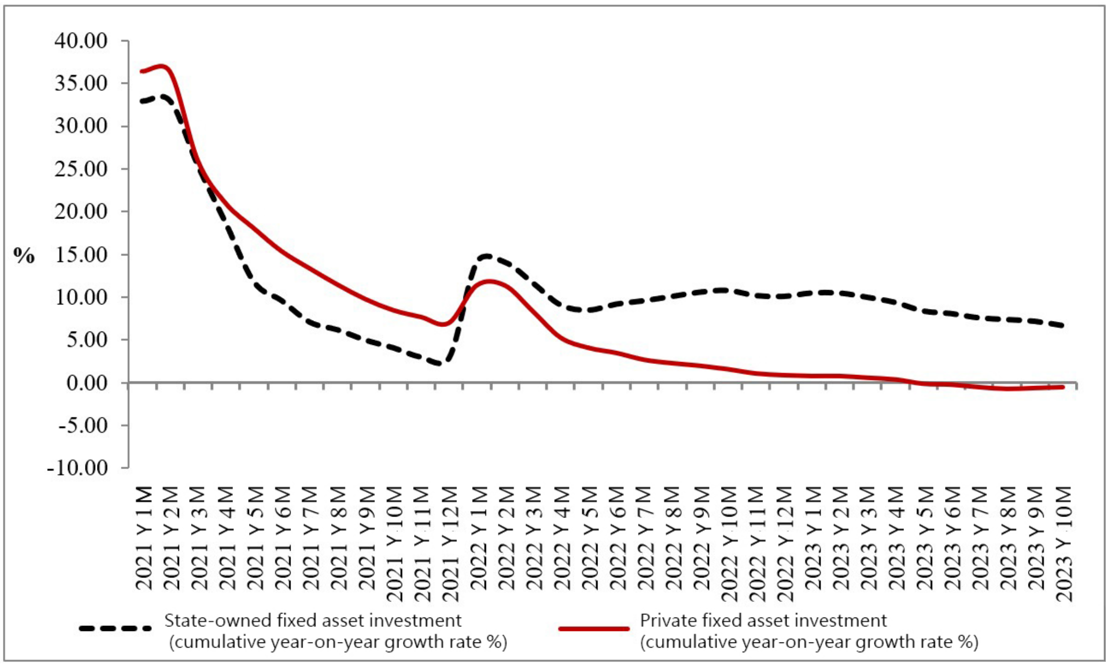
After the pandemic, the mainland China economy has not shown significant signs of recovery, with various economic indicators performing weakly. International institutions have successively lowered their forecasting of China's economic growth for 2023-24. In general, China's private investment and domestic consumption demand can best reflect its internal economic momentum and vitality. Therefore, this article attempts to observe the post-pandemic recovery situation in mainland China from these two indicators and examine the effectiveness of the relevant stimulus policies recently proposed by mainland China.

Post-pandemic, the private economy in mainland China is weak and sluggish

Post-pandemic, the performance of the private economy in mainland China has been sluggish. Looking at the fixed asset investment performance in mainland China in recent years, the impact of the pandemic has led to a rapid decline in investment growth. Further disaggregation into state-owned and private investment reveals that after April 2022, due to the lockdowns in areas such as Shanghai and Jiangsu in mainland China, private investment growth has plummeted, with the year-on-year growth rate approaching zero or even negative. During this period, investment momentum has largely relied on injections of state capital to maintain stability (see Figure 1).

The sluggish growth of private investment has had a direct impact on the slowdown of manufacturing investment in mainland China. This is mostly because the primary investment in manufacturing comes from private funds. Therefore, in 2023, investment in various manufacturing sectors decreased significantly compared to the previous year. This includes traditional industries such as petroleum, coal, fuel processing, chemical fibers, furniture, textiles, metal processing, and others. The cumulative year-on-year growth of investment in these industries was negative, indicating that since 2023, most manufacturing industries in mainland China have been unable to obtain sufficient investment momentum. This serves as one of the evidences for the lack of economic recovery in mainland China post-pandemic.



Data Source: CEIC.

Figure 1: Weak Growth of Private Investment in Mainland China

Consumer demand has not shown signs of recovery after the lifting of the lockdown

Looking at the situation of domestic consumption demand, mainland China has not witnessed the anticipated retaliatory consumption recovery after the pandemic lockdowns were lifted. Judging from the consumer confidence index in mainland China, it has remained low, ranging between 80 and 90 since April 2022. Even after the full reopening in 2023, consumer confidence has not returned to pre-pandemic levels. Examining the structure of household consumption expenditure in mainland China, it has steadily declined over the past three years of the pandemic's impact. In 2019, the proportion of household consumption expenditure to gross domestic product (GDP) was 39.1%, which declined to 37.2% by 2022. This figure is significantly lower than that of other advanced countries, such as the United States with a proportion of 68.2%, Japan with 53.9%, South Korea with 48.4%, and Taiwan with 45.5%. It indicates that mainland Chinese residents have become more conservative in their consumption spending due to the impact of the pandemic.

Conclusion

After the pandemic, the mainland China economy has not shown effective recovery. The weakness in the private economy and private consumption reflects multiple problems within the current system. Particularly, with insufficient investment confidence, industrial development is constrained, making it harder to seek market breakthroughs and technological innovations. This leads to inadequate momentum for economic growth transformation. Moreover, weak consumption exacerbates the emptiness of the "internal circulation" policy in the economy. Therefore, considering the current state of economic development in mainland China post-pandemic, if key economic indicators such as the private economy and private consumption fail to improve, concerns about mainland China falling into the "middle-income trap" will persist.